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CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 44
16 March - 22 March 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

The USSR is apparently obtaining strategic materials from Southeast Asia through clandestine channels of trade (p. 2).

Although YOSHIDA can be expected to comply with occupation wishes in fiscal matters, it appears that the Japanese Government will attempt to increase Executive Branch authority at the expense of the SCAP-favored Diet (p. 2).

The Republic of Korea will continue to press for increased US military aid, possibly with offensive action in mind (p. 4).

Although Acting President LI has been able to bring further major Nationalist figures into his camp, there has been no real improvement in the prospects for peace in China (p. 5). Meanwhile, the Communists have shown increased interest in the future of Taiwan, while Nationalist elements there continue to work at cross-purposes and Taiwanese disgruntlement increases (p. 6).

French and Vietnamese observers in Indochina express cautious optimism regarding Bao Dai's prospects for success in the face of severe problems (p. 7).

Continued degeneration of governmental authority in Burma increases the possibility of a major shakeup or even collapse (p. 8).

Republican officials' control over their guerrilla forces is being weakened by Dutch delaying tactics in Indonesia (p. 9).

The Australian Labor Party appears to be able to survive opposition sniping and emerge victorious in the autumn elections (p. 10).

NOTE: A study of "Point Four" in Southeast Asia appears in Section III.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Clandestine movements of strategic raw materials to USSR. It is believed that Russia is covertly acquiring undetermined quantities of Southeast Asian tin, antimony, wolfram, rubber, palm oil and other products. The Soviet Legation in Siam is reportedly active in arranging the purchase of tin concentrates with US dollars through small Chinese firms. Shipments of raw materials are made through southern Siamese and northern Malayan ports and probably include not only materials from these countries but also products smuggled in from Java, Sumatra and western Borneo. Falsified shipping documents and export permits can be supplied by bribed port officials and cargos are often shipped under misleading labels. By adding small amount of lead to tin concentrate, for example, the shipment may be listed as lead-tin solder. The shipping pattern for Siamese material probably follows that reportedly used for cladestine shipments of rubber from Singapore--forwarding to Hong Kong or Shanghai and transshipment from there to other ports, possibly including Vladivostok. "B"

JAPAN

SCAP statement designed to reassure Japanese. General MacArthur's recent statement that he would remain at his post until the signing of a peace treaty unless assigned elsewhere and that reports of civilian control for Japan are rumors, appears to be a SCAP attempt to reassure the Japanese public which is still perturbed over "withdrawal-from-Japan" reports and is eager for any comforting statement. The Japanese press headlined MacArthur's comments, while a Government spokesman manifested "utmost joy" over a continuation of SCAP's "enlightened guidance." Since the possibility of an early peace treaty has been largely discounted in the Japanese mind, MacArthur's statement has been interpreted as indicating that he will remain indefinitely. In view of its respected origin, MacArthur's statement will help quiet current withdrawal fears, but the suspicion that the US may leave Japan defenseless will still remain and Japanese Communists may be expected to play on this lingering fear. "B"

YOSHIDA Government troubles. Despite its favorable majority position in the Diet, the YOSHIDA Government is not finding the going smooth. Satisfaction of conservative interests and fulfillment of YOSHIDA's personal ambitions have dominated the administration's attempts to develop a legislative program. In its outlined form, the administration's program contained measures objectionable both to the opposition parties and to SCAP. Opening of the Diet was delayed to permit modification of the budget, certain features of which are reported to be contrary to the new economic rehabilitation directive. Despite the government's desire to "B"

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Communists denounce Atlantic Pact. The Chinese Communist Party (CCP) responded as anticipated to the announcement of the provisions of the Atlantic Pact, denouncing the pact as another "plot of the war provcateurs" led by "the American imperialist government." The Communists used the occasion to endorse, for the first time, the Sino-Soviet Treaty of August 1945, and to reaffirm the unity of the CCP with the USSR. "C"

The lengthy CCP broadcast also condemns the US for refusing to recognize the sincerity of Stalin's "peace" overtures, and for rejecting the proposals of the Soviet Union regarding disarmament, atomic weapons, and control of atomic energy. The broadcast attributes this recalcitrance, as always, to the "economic and political crisis (which)...grows ever graver...within the entire imperialist camp," compelling "the international reactionaries...to find a way out of this crisis through war." The broadcast finds hope, however, in "the organized strength to win peace; the nucleus of this strength lies in the Soviet Union," reinforced by Soviet satellites, Communist parties, pro-Soviet and Communist front groups everywhere.

The broadcast notes approvingly the statements of the leaders of 14 other Communist parties, "responding to the call of Thorez and Togliatti," and states that "we, the Chinese people, will surely, without question...support this call." China is especially impelled to do so, the broadcast alleges, as China has suffered directly from armed invasion and from foreign support of the Kuomintang in the civil conflict. In short, "the Chinese people...cannot but regard...the American imperialist elements as their mortal foe,...and the leaders of the world anti-imperialist front--the great socialist state, the Soviet Union--as their comrades in arms from first to last."

The above remarks were not ascribed, as have been important statements of policy in the past, to MAO Tse-tung, or to any other Party leader, or even to the Central Committee, but merely to a Communist news agency "editorial," a vehicle which the CCP has sometimes employed for positions which were subsequently reversed. There is little chance, however, that this particular position will be reversed in the foreseeable future; until the USSR's aggression in China becomes manifest to the CCP, or even thereafter (as in Yugoslavia), the CCP can be expected to continue to support the Soviet position on international affairs.

INDOCHINA

Bao Dai's chances of success. Reaction from certain prominent Vietnamese and responsible French officials in Saigon, following the Bao Dai-Auriol agreement, indicates their belief that ex-emperor Bao Dai upon his return to Indochina may be successful in establishing an effective government. This attitude apparently is based upon signs of public interest in the Bao Dai agreement, a belief that non-Communist "C"

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INDOCHINA (continued)

resistance elements will cooperate with Bao Dai under certain conditions (i.e. a face-saving arrangement to avoid surrender of arms to the French), and an apparent confidence in Bao Dai's ability to pacify the country. On the other hand, these observers acknowledge the deep mutual suspicion which may prevent a practical solution as long as the French remain in Indochina.

While the actions of the non-Communist resistance element in Indochina are hard to predict, it is improbable that rapid shifts to support of Bao Dai will occur. Only if it becomes apparent that a reasonably independent regime may succeed will there be any significant realignment which would add strength to a government headed by Bao Dai. Further, it is quite doubtful that a Vietnamese army under Bao Dai would be successful where the French have found a program of military suppression infeasible.

Although the Bao Dai agreement grants wider concessions to the ex-emperor than were offered to Ho Chi Minh, the partly successful Viet Minh effort to drive France from Indochina will encourage the non-Communists to continue their present opposition to the French. Also, a campaign has already been launched by die-hard French colonial officials and residents to undermine the new experiment at the working level.

BURMA

Major governmental shakeup possible. The present Burmese Government "B" may undergo a major revision or even collapse in the near future as the multi-faction civil war continues to weaken its already tenuous authority. Karen forces in central Burma have captured several important towns, considerable amounts of money and supplies and have liberated large numbers of Karen military personnel from Government internment. Furthermore, Kachin and Chin Government troops are showing little enthusiasm for fighting Karens and are reported to be deserting or remaining neutral. If the Karen forces move southward as expected, they will be augmented by increasing numbers of irregulars and will probably overrun the weak Government forces defending the approaches to Rangoon. Under these favorable circumstances, the Karens have ignored a recent Government offer of amnesty, which was largely without substance, and are probably more determined than ever to press their demands for an autonomous or independent state.

To avert military defeat at the hands of the Karens, the Government is apparently seeking an accommodation with the insurgent Peoples' Volunteer Organization (PVO). Although there has been no official confirmation, it has been reliably reported that Prime Minister Thakin Nu has agreed to give the PVO three seats in the cabinet and accept 13 PVO demands. Among

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BURMA (continued)

other things, these demands include a general amnesty for PVOs, recognition of PVO authority over the areas it controls, and the inclusion of all PVOs now bearing arms against the Government into the regular Army. A Government-PVO settlement is not likely to alter the existing military situation materially in the near future, or establish a more stable and popular regime. Such a coalition would inherit the unsolved problems of its predecessor, and probably be confronted by many new ones. The redistribution of political and military patronage could be a particularly thorny issue. Furthermore, there are those in the Government who would vigorously oppose cooperating with the PVO, while on the other hand many PVOs, possibly with the support of Supreme Commander Ne Win, desire to form a purely PVO-appointed cabinet. Therefore, although a superficial agreement may endure temporarily, personal feuds, factionalism and confusion will continue.

INDONESIA

Dutch delay weakens Republican control over guerrillas. The few Republican leaders now at liberty in Indonesia are concerned over the absence of a centralized leadership over Republican adherents. They feel that while the Dutch hold the moderate leaders as political prisoners, more radical military leaders will assume effective authority. This development is a strong probability in view of the fact that military units operating in pockets in isolated areas will be forced to rely more and more on their own initiative. Aside from the growing independence of regular TNI (Republican Army) units, Tan Malakka (often characterized as a Trotskyite) is supported by militaristic groups of the extreme left wing and will undoubtedly make a bid for leadership. Tan Malakka's forces may find a possible source of added strength in remnants of the former Communist Party (PKI) army which took refuge in the hills of Central and East Java when its coup against the Republic failed last September. Dutch forces have recently launched a drive against certain pro-Tan Malakka groups located in Central Java, but initial airdrops failed to make contact with these guerrilla forces. "A"

Regular Republican and independent guerrilla resistance to the Dutch has accelerated to such an extent in recent months that even a centralized government at Jogjakarta would encounter difficulties in enforcing a cease-fire order. Well-informed Republican officials have estimated that if President Soekarno were to be restored immediately to authority at Jogjakarta (this is a crucial point in Dutch-Indonesian relations), his commands to military units would be only 60 per cent effective. It is believed that the longer he remains in detention, the less effective would be his influence when restored to power, a fact which the Dutch may well be exploiting in their present delaying tactics.

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AUSTRALIA

"C"

Labor Party's election prospects bright. Although the Australian political scene will be confused by political maneuvering as the fall elections approach, the Labor Party will probably emerge victorious. The Labor Government has regained a large measure of popular favor in recent months and the failure of a nationwide Liberal-Country Party coalition to materialize has further brightened its prospects. The opposition parties moreover, has not yet produced positive platforms and hold little appeal for the powerful trade unionist group. Principal issues in the general election will be: (1) inflation; (2) communism; (3) internal security.

The Labor Government believes that it is not likely to be dislodged on the issues of wages, prices, and current high living costs while money is plentiful and there is full employment. Nevertheless, the opposition will indict Labor for its failure to maintain price subsidies and price control. Communism will be a major issue and one on which the Government has been vulnerable. Prime Minister Chifley has refused to outlaw the Communist Party on the grounds that no minority should be denied the right of free speech and that there are ample legal penalties for Communist violations of the law. The Labor Government, on the other hand, has recently stiffened its policy and is now prosecuting the Communist Party Secretary General for sedition.

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SECTION III. B/FE ESTIMATE

"Point Four" in Southeast Asia

President Truman's inaugural address contained the declaration that "we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of undeveloped areas." In explanation of this fourth point in the President's foreign policy statement, Truman said that while US material resources were limited, US technical knowledge was not and was therefore exportable without restriction. The President stated that the export of technical proficiency was not intended to be a US monopoly but should include other nations and international organizations as partners. Private enterprise in both the US and other nations, in the President's opinion, should be encouraged to invest capital in undeveloped countries under guarantees both to the investor and to the indigenous peoples.

Since technological aid is being given to many nations by a number of US departments and agencies, by special UN commissions and by ECA, while private capital is active in colonial areas as well, the originality of "Point Four" lies less in the granting of a new sort of assistance to undeveloped foreign countries than in a new concept of implementation. It is planned that "Point Four" aid will be better coordinated both on a national and international level; that the various categories of exported skills will be expanded; that the quantity of help will be considerably augmented; that the number of participating countries will be increased and finally that the program will be sustained on a long-range basis.

Designed as a measure to raise living standards of the depressed millions in undeveloped areas, "Point Four" will serve to promote US security interests and blunt the spearheads of Soviet propaganda by so doing. Further, American technical, mechanical and organizational talents, exhibited abroad, should increase US prestige and influence. In all, "Point Four" may well develop into a major instrument for the advancement of US foreign policy.

On 3 March 1949, the State Department requested specific overseas missions to report on local reactions to "Point Four", including comments on local interest manifested, cooperation that might be expected and such recommendations as could be offered immediately as to kinds of activities needed and channels or agencies best suited for conducting them. Replies from all State Department addressees in Southeast Asia have now been received and are analyzed, below, country by country.

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INDOCHINA

Unsettled political, military and economic conditions here make prediction of the degree of cooperation to be expected difficult and even raise the question of with whom negotiations may be conducted. A Bao Dai government will unquestionably desire and request all possible US or other friendly foreign aid. The French will in all likelihood only agree if the program is conducted solely under their auspices and integrated with their own unrealistic "ten year" plan. A Viet Minh-controlled government would probably oppose US assistance as a "threat to sovereignty".

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SIAM

Although for many years the most politically stable area in Southeast Asia, Siam is not superior to her neighbors in economic development and may even lag behind some of them. Historically, Siam has evinced a serious interest in developing her resources but the government has been handicapped by a lack of qualified technical personnel to direct or execute plans. Siam, therefore, would welcome "Point Four".

US Embassy, Bangkok, suggested the following courses of action:

(1) Comprehensive economic survey, to determine definitely Siam's mineral, agricultural, industrial, and financial assets to preceed selection and assignment of advisers.

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(2) Siam's economy being largely based on rice export, aid in rehabilitating railways, highways, waterways and harbors should be given high priority.

(3) Organization of an effective public health program and training in the prevention and cure of human and animal diseases.

(4) Encouragement of private financing for hydroelectric projects, both to improve irrigation and to provide power for railways and industry.

(5) Establishment of a US training program for some 20 Siamese annually in the fields of medicine, public health, engineering, agriculture, transportation, mining, geology, land conservation, forestry and general economics. In each of these fields, one American should come to teach and train pupils in Siam as well. Exchange of students and professors in non-technical fields is also desirable.

MALAYA

The UK is presently implementing its own economic and social rehabilitation program in Malaya. The effort is being handicapped, however, by widespread banditry under Communist direction. This handicap, as well as a limited reserve of funds, makes it probable that British authorities would be well disposed toward "Point Four" technical aid and financial investment patterned to fit their undertakings.

US Consul General, Singapore, suggests that such assistance could best be implemented as follows:

(1) Expansion of food production through increased acreage, improved irrigation and mechanized cultivation of rice as well as development of offshore and river fisheries.

(2) Institution of mass elementary education, including adult classes.

(3) Broad revision of Malaya's present economy, including introduction of more household industries, development and introduction of disease-resistant rubber plants, more diversification of crops, more effective utilization of labor, surveying of geological and forest resources prior to development of mining, sawing and milling operations and the expansion of electric power for processing exports and local goods.

(4) Institution of a health program both to teach methods of combating the many virulent local diseases and to increase local production of medicines.

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BURMA

Current conditions of near anarchy in Burma (see p. 8) will probably prohibit any early application of "Point Four" there. The Burmese, moreover, are almost pathologically suspicious of any form of foreign aid at present, believing all such acts to be attempts at "imperialist" control. Eventually, however, Burma will need considerable technical advice and foreign capital.

US Chargé, Rangoon, reports that a program of assistance to Burma might include:

(1) Possible development of light industry and assistance in production of minerals, oil, and hardwoods.

(2) Establishment of resident advisory groups for improvement of agriculture and health.

(3) Increased fellowships to Burmese graduate students in the US.

INDONESIA

Netherlands officials have implied that, in general, the Dutch themselves possess all the skills necessary to direct the rehabilitation of Indonesia and therefore do not need outside advice. Republican representatives, on the other hand, have exhibited much enthusiasm for "Point Four". US Consul General, Batavia, reports that opportunities for development are unlimited in the fields of conservation, forestation, transportation, communications, electrification, agriculture, public health, government administration and education. Recent and current warfare in Indonesia, in his opinion, will intensify Indonesia's needs.

PHILIPPINES

In accordance with the April 1946 Philippine Rehabilitation Act, reconstruction aid is now being given by the US in a wide variety of fields. Since this program is scheduled to end on June 30, 1950, the Philippines may be expected to welcome "Point Four" in the future. 25X1

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